

Committee(s)	Dated:
Audit and Risk Management Committee	23 May 2017
Subject: External Quality Assessment – an external review of Internal Audit in the City of London Corporation	Public
Report of: Head of Audit and Risk Management	For Decision
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Summary

The purpose of this report is to outline the key findings of the external and independent review of the City Corporation's Internal Audit, Risk Management and Anti-Fraud function. The title of the report produced by the review is termed External Quality Assessment (EQA) of Internal Audit.

As part of the contract with Mazars LLP to deliver the Head of Audit & Risk Management role, the Chamberlain commissioned a review of the effectiveness of the Internal Audit function to assess the strengths and weaknesses of the current arrangements for audit within the City Corporation as well as identifying opportunities for improvement. The EQA is based upon the best practice advice and guidelines from Mazars' involvement with local government internal audit functions as a leading provider of these services, and with regard to the Public Sector Internal Audit Standards (PSIAS).

The Mazars assessor, together with the Head of Audit and Risk Management (HoA&RM), interviewed a total of 16 members, chief officers and senior managers to identify current processes in place and obtain user feedback on the effectiveness of the Internal Audit, Risk Management and Anti-Fraud functions.

The report's key finding was that the Internal Audit function generally conforms with the PSIAS and that it was a traditional compliance orientated function with a long standing knowledge of the organisation. While there were a significant number of positive responses from the fact-finding interviews, there were ten areas for development (three high, five medium and two low priority recommendations).

In finalising the report, an action plan has been developed based upon the recommendations made, which is attached as Appendix 1.

Recommendations

- a) The Committee are requested to consider the report and recommendations.
- b) The Committee agree to an action plan based upon these recommendations.

Background

- 1 A professional, independent and objective internal audit service is one of the key elements of good governance in local government. Under the Public Sector Internal Audit Standards introduced from 1 April 2013 and updated in 2016, local government internal audit functions have been required to comply with these Standards and should be subject to periodic assessment.
- 2 In 2016, as part of the contract with Mazars LLP to deliver the Head of Audit & Risk Management role, the Chamberlain commissioned a review of the effectiveness of the Internal Audit function to assess the strengths and weaknesses of the current arrangements for audit within the City Corporation as well as identifying opportunities for improvement. An External Quality Assessment of Internal Audit was undertaken by Mazars, together with the Head of Audit and Risk Management, based upon the best practice advice and guidelines from Mazars' involvement with local government internal audit functions as a leading provider of these services, and with regard to the Public Sector Internal Audit Standards (PSIAS).

External Quality Assessment

- 3 Following consultation with the Chamberlain, Mazars undertook the EQA as set out in the terms of reference of the assessment. The aim of the EQA as set out in the terms or reference was to:
 - Assess current capability and capacity within the service and areas which may require development;
 - Review the audit planning cycle and make recommendations to ensure that this is meeting the strategic and operational requirements of the City Corporation currently and into the future;
 - Review and assess current operational arrangements and make recommendations to ensure that working practices are in line with current best practice and to make recommendations for future development;
 - Evaluate requirements of existing key stakeholders and make recommendations on changes in current working practice where appropriate; and
 - Assess current structures and make recommendations in light of both current needs and anticipated future developments.

The review undertaken would be used as the statutory annual review of the Internal Audit service and would therefore need to be compliant with these requirements.

- 4 The Mazars assessor, together with the Head of Audit and Risk Management (HoA&RM), interviewed a total of 16 members, chief officers and senior managers to identify current processes in place and obtain user feedback on the effectiveness of the Internal Audit, Risk Management and Anti-Fraud functions.

Key Findings

- 5 The headline outcome of the report is that the Internal Audit function generally conforms with the PSIAS; there are four levels of compliance with the PSIAS: Fully, Generally, Partially and Does Not Conform. This is consistent with the vast majority of assessments for local authorities in London and is consistent with the external assessment undertaken through peer review in 2013. Internal Audit was identified to operate as a *“traditional compliance orientated function...found to contain a long standing knowledge of the business, working primarily in the provision of financial orientated assurance and advice”*.
- 6 The review further identified that *“there were a significant number of positive responses from our fact-finding interviews with staff, officers and members; particularly with regard to business relationship management, experience of the Internal Audit team at the City Corporation, the success of the Risk Management and Counter Fraud functions, and information provided to the Audit & Risk Management Committee”*.
- 7 The overall conclusion of the Assessment was that *“with the changes happening across the organisation and a more rigorous approach to performance and risk management, there is now a need for the Internal Audit function to realign itself to the organisation’s needs and expectations and for it to become both more outward looking and forward focused in providing the challenge and support that the City Corporation and its organisations is looking for”*.

Opportunities for development

- 8 In conclusion, Mazars identified a number of key areas of focus for developing the current Internal Audit function based on the expectations of key stakeholders and their assessment of the City Corporation’s Internal Audit function against their evaluation framework:
 - Purpose & Remit / Position & Organisation - *There is a need for the Internal Audit function to undertake a detailed identification of current processes within the City Corporation, key outcomes, corporate and operational risks and map this to the assurance requirements of the organisation. There is also a need to ensure that the risks identified during the planning process are followed through when formulating and agreeing the audit brief and delivering the audit work.*
 - Process & Technology - *An audit manual needs to be developed to clearly define the requirements of a focused top-down risk-based internal audit approach to be consistently applied across the Internal Audit function.*
 - Consideration should be given to utilising the latest functionality of the MKinsight system to automate the follow up monitoring process and ensure management accountability for implementation of Internal Audit recommendations.
 - Consideration should be given to utilising the latest functionality of the MKinsight system for time recording, budget monitoring and the provision of management information.

- People & Knowledge - *A skills gap analysis should be undertaken and a formal training and development programme put in place.*

9 As a result, a total of ten recommendations have been made in the report and aimed at addressing these areas (three high, five medium and two low priority recommendations). The report was presented in draft to the Chamberlain who considered the content and the recommendations and requested that the Head of Audit and Risk Management produce an Action Plan based upon the recommendations, a number of which are more longer term. The final report and proposed Action Plan are attached as Appendices 1 and 2.

Conclusion

10 The External Quality Assessment report confirms that the City Corporation's Internal Audit function continues to generally conform to the Public Sector Internal Audit Standards. It has identified a number of opportunities for improvement which will be addressed through the proposed Action Plan, progress against which will be reported to the Audit and Risk Management Committee in due course.

Appendices:

APPENDIX 1 – External Quality Assessment – proposed Action Plan May 2017

(The full report will be emailed to Members and paper copies will be provided on request)

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